

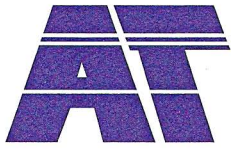
Ojibwe Charter School

**Financial Report
with Supplementary Information**

June 30, 2008

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Members of the Board of Education
Ojibwe Charter School
Brimley, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Ojibwe Charter School, as of and for the year ended June 30, 2008, which collectively comprise the Ojibwe Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ojibwe Charter School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Ojibwe Charter School, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Ojibwe Charter School

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2008, on our consideration of Ojibwe Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required budgetary comparison information identified in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ojibwe Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2008

Management's Discussion and Analysis

Ojibwe Charter School is a K-12 Public School Academy located in Chippewa County, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Ojibwe Charter School administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: School-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the School's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

School-wide Financial Statements:

The school-wide financial statements are maintained using the "full accrual" basis. They report all of the School's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the School are reported in the Statement of Net Assets of the school-wide financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2007 and 2008:

Net Assets Summary

	2007	2008
Assets		
Current assets	\$ 460,500	\$ 267,494
Capital assets	426,327	425,352
Less: accumulated depreciation	(157,285)	(217,935)
Capital assets, net book value	269,042	207,417
Total assets	<u>\$ 729,542</u>	<u>\$ 474,911</u>
Liabilities		
Current liabilities	\$ 214,611	\$ 107,553
Long-term liabilities	30,454	19,792
Total liabilities	<u>\$ 245,065</u>	<u>\$ 127,345</u>
Net assets		
Invested in capital assets, net of related debt	\$ 228,420	\$ 176,967
Unrestricted	256,057	170,599
Total net assets	<u>\$ 484,477</u>	<u>\$ 347,566</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

During fiscal year ended June 30, 2008, the School's net assets decreased by \$136,911 as compared to a net increase of \$14,728 in the prior fiscal year. The primary difference between prior year net assets and current year net assets was due to a reduction in State Aid. In the fiscal year ending June 30, 2008, the charter school received \$497,784 in Impact Aid Grant funds, a decrease over fiscal 2007 as well. An issue facing the Board is the sustainability of keeping smaller class sizes to maximize student achievement. This is going to be dependent upon continued increases in the Impact Aid Grant from the Bureau of Indian Affairs. The likelihood of continued increases is uncertain at this time.

As of the 2007-2008 fiscal year the School hired an in-house business manager, who is responsible for the accounting duties previously performed by the management company.

During 2007-2008 school year the School hired an in-house food service staff member to have more internal control over the food service program which was previously catered out.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**
A. Results of Operations:

For the fiscal year ended June 30, 2007 and 2008, the School wide results of operations were:

	2007		2008	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General revenue:				
State of Michigan aid - unrestricted	\$ 736,369	48.19%	\$ 652,971	44.98%
Federal Impact aid	517,220	33.85%	497,784	34.29%
Other	3,694	0.24%	6,411	0.44%
Total general revenue	<u>1,257,283</u>	<u>82.27%</u>	<u>1,157,166</u>	<u>79.71%</u>
Program revenue:				
Charges for services	11,443	0.75%	4,805	0.33%
Operating and capital grants	<u>259,472</u>	<u>16.98%</u>	<u>289,688</u>	<u>19.96%</u>
Total program revenue	<u>270,915</u>	<u>17.73%</u>	<u>294,493</u>	<u>20.29%</u>
Total revenue	<u>1,528,198</u>	<u>100.00%</u>	<u>1,451,659</u>	<u>100.00%</u>
Expenses:				
Instruction and instructional services	757,238	50.03%	737,151	46.32%
Support services	642,958	42.48%	700,949	44.04%
Food and athletic services	52,198	3.45%	77,810	4.89%
Interest on long-term debt	2,068	0.14%	1,623	0.10%
Depreciation (unallocated) and loss	<u>59,008</u>	<u>3.90%</u>	<u>73,921</u>	<u>4.64%</u>
Total expenses	<u>1,513,470</u>	<u>100.00%</u>	<u>1,591,454</u>	<u>100.00%</u>
Increase (decrease) in net assets	14,728		(139,795)	
Net Assets - Beginning	469,749		484,477	
Prior Period Adjustment	<u>-</u>		<u>2,884</u>	
Net Assets - Ending	<u>\$ 484,477</u>		<u>\$ 347,566</u>	

B. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- Per Student, Foundation Allowance: Annually, the State of Michigan sets the per student foundation allowance. The Ojibwe Charter School foundation allowance was \$7,204 per student for the 2007 - 2008 school year.
- Student Enrollment: The School's student enrollment for the fall count of 2007 - 2008 was 93 students. For the fiscal year 2007-08 a membership blend of 75% of current year fall student count (September 2007) and 25% of the previous year winter student count (February 2008) is multiplied by the Academy's foundation allowance.

Subsequent to year-end June 30, 2008, preliminary student enrollments for 2008 - 2009 indicate that the 2008 fall student enrollment will be fairly consistent with 2007 - 2008 levels.

C. General Fund Budgetary Highlights**General Fund Operations**

The School's revenues and other sources from General Fund operations did not exceed expenditures and other uses by \$92,118 for the fiscal year ended June 30, 2008. The board and administration has made an effort to contain costs during the fiscal year.

Final Budget vs. Actual

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues		
2006-2007	\$ 1,539,691	\$ 1,492,218
2007-2008	\$ 1,479,676	\$ 1,417,040
2008-2009 (projected)	\$ 1,597,658	\$ -
Expenditures		
2006-2007	\$ 1,568,079	\$ 1,439,961
2007-2008	\$ 1,566,060	\$ 1,509,158
2008-2009 (projected)	\$ 1,409,836	\$ -

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Ojibwe Charter School amends its budget periodically as needed during the school year. For the fiscal year 2007 - 2008, the budget was amended several times due to funding changes. The June budget amendment was the final budget for the fiscal year. The Ojibwe Charter School Board does not budget for expenditures covered by grants or for the grant revenue until an award is received.

Change from Original to Final General Fund Budget**Revenues:**

Total Revenues Original Budget	\$ 1,565,509
Total Revenues Final Budget	<u>1,479,676</u>
Decrease in Budgeted Revenues	<u>\$ 85,833</u>

The School's final general fund revenues were less than the final budget by \$62,636.

C. General Fund Budgetary Highlights

The following are the significant changes in revenues from the original budget:

- Original budget had estimated an enrollment of 93 students and fall 2007 actual enrollment was 93.
- Original budget had estimated the foundation allowance at \$7,204 the actual foundation allowance for 2007-08 was \$7,204.
- Received decreased funds from Impact Aid grant totaling \$497,784.

Expenditures:

The School's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 1,662,609
Total Expenditures Final Budget	<u>1,566,060</u>
Decrease in Budgeted Expenditures	<u>\$ 96,549</u>

The School's actual expenditures were less than final budget by \$56,902. This variance was primarily a result of unspent federal grant allocations awarded to the Academy. Those allocations are available through September 30 and it is anticipated that these unspent allocations at June 30 will be used before the end of the grant period.

The following are the significant changes in expenditures from the original budget:

- Adjustment in instructional staffing to recognize the decrease in student enrollment.
- Adjustment in staffing and other costs to recognize the programmatic additions.

CAPITAL ASSETS AND DEBT ADMINISTRATION**A. Capital Assets**

The School's net investment in capital assets decreased by \$61,625 during the fiscal year. This can be summarized as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Non-depreciable capital assets	\$ 13,200	\$ -	\$ (13,200)	\$ -
Depreciable capital assets	413,127	12,296	(71)	425,352
Less: accumulated depreciation	<u>(157,285)</u>	<u>(60,670)</u>	<u>20</u>	<u>(217,935)</u>
Net investment in capital assets	<u>\$ 269,042</u>	<u>\$ (48,374)</u>	<u>\$ (13,251)</u>	<u>\$ 207,417</u>

B. Depreciation Expense

GASB 34 requires Public School Academies to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the School's financial statements.

For fiscal year ended June 30, 2008, the net increase in accumulated depreciation was \$60,670.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

C. Debt, Principal Payments

The School financed its school bus purchase during 2006-07 by entering into a long-term capital lease.

	Balance 6/30/2007	New Financings	Principal Payments	Balance 6/30/2008
Leases payable	\$ 40,622	\$ -	\$ 10,172	\$ 30,450
Tax anticipation notes payable	28,295	425,000	453,295	-
Total long-term obligations	<u>\$ 68,917</u>	<u>\$ 425,000</u>	<u>\$ 463,467</u>	<u>\$ 30,450</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2008-09 Fiscal Year was adopted by the Board of Education on June 15, 2007. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on perceived interest from the community. Some key factors and estimates used in the 2008-09 budget preparation process include:

- The State Aid foundation had been estimated to be \$7,304 per pupil;
- Enrollment projections of 94 students.
- Current teaching staff provides one teacher for every 8 students;
- Benefit costs would be based on group coverage rates through the Michigan Chamber of Commerce and Teamster's Insurance.

Since the School's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to School Districts and Public School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. Based on the results of the most recent conference, the State has estimated that funds will be sufficient to fund current appropriations.

CONTACTING THE SCHOOL'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the School's finances. If you have questions about this report or need additional information, contact the Administration Office, Ojibwe Charter School, 11507 West Industrial Drive, Brimley, Michigan.

Basic Financial Statements

**Statement of Net Assets
June 30, 2008**

	Governmental Activities
<hr/>	
Assets	
Current Assets	
Cash and equivalents	\$ 103,745
Due from other governmental units	141,973
Accounts receivable	2,362
Prepaid expenses	18,494
Inventory	920
Total current assets	<hr/> 267,494 <hr/>
Noncurrent Assets	
Capital assets	425,352
Less: accumulated depreciation	<hr/> (217,935) <hr/>
Total noncurrent assets	<hr/> 207,417 <hr/>
Total assets	<hr/> <hr/> \$ 474,911 <hr/>
 Liabilities and Net Assets	
Current Liabilities	
Cash overdraft	\$ 1,151
Accounts payable	18,423
Accrued salaries and withholding	73,468
Accrued expenses	3,853
Leases payable - due within one year	<hr/> 10,658 <hr/>
Total current liabilities	<hr/> 107,553 <hr/>
Noncurrent Liabilities	
Leases payable	<hr/> 19,792 <hr/>
Total noncurrent liabilities	<hr/> 19,792 <hr/>
Total liabilities	<hr/> 127,345 <hr/>
Net Assets	
Invested in capital assets, net of related debt	176,967
Unrestricted	<hr/> 170,599 <hr/>
Total net assets	<hr/> 347,566 <hr/>
Total liabilities and net assets	<hr/> <hr/> \$ 474,911 <hr/>

Statement of Activities
Year Ended June 30, 2008

		Program Revenue			Governmental
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
	Expenses				
Functions/Programs					
Governmental Activities:					
Instruction and Instructional Services	\$ 737,151	\$ -	\$ 247,678	\$ -	\$ (489,473)
Support services	700,949	-	-	12,296	(688,653)
Food services	56,461	4,216	29,714	-	(22,531)
Athletic activities	21,349	589	-	-	(20,760)
Interest on long-term debt	1,623	-	-	-	(1,623)
Depreciation (Unallocated)	60,670	-	-	-	(60,670)
Total Governmental Activities	<u>\$ 1,578,203</u>	<u>\$ 4,805</u>	<u>\$ 277,392</u>	<u>\$ 12,296</u>	(1,283,710)
General Revenues:					
State of Michigan aid, unrestricted					652,971
Federal Impact aid					497,784
Interest income					4,532
Loss on asset disposals					(13,251)
Other miscellaneous					1,879
Total general revenues					<u>1,143,915</u>
Changes in Net Assets					(139,795)
Net assets:					
Beginning of year					484,477
Prior period adjustment					2,884
End of year					<u>\$ 347,566</u>

Ojibwe Charter School

Balance Sheet Governmental funds June 30, 2008

	General	Food Service	Nonmajor Fund Athletics	Total Governmental Funds
Assets				
Cash and equivalents	\$ 98,659	\$ 3,936	\$ 1,150	\$ 103,745
Due from other governmental units	141,973	-	-	141,973
Due from other funds	19,610	14,780	4,957	39,347
Accounts receivable	287	2,075	-	2,362
Inventory	-	920	-	920
Prepaid expenses	18,494	-	-	18,494
Total Assets	<u>\$ 279,023</u>	<u>\$ 21,711</u>	<u>\$ 6,107</u>	<u>\$ 306,841</u>
Liabilities				
Cash Overdraft	\$ 1,151	\$ -	\$ -	\$ 1,151
Accounts payable	18,423	-	-	18,423
Accrued salaries and withholdings	73,468	-	-	73,468
Due to other funds	22,042	18,762	2,396	43,200
Total liabilities	<u>115,084</u>	<u>18,762</u>	<u>2,396</u>	<u>136,242</u>
Fund Balances				
Unreserved and undesignated	<u>163,939</u>	<u>2,949</u>	<u>3,711</u>	<u>170,599</u>
Total fund balances	<u>163,939</u>	<u>2,949</u>	<u>3,711</u>	<u>170,599</u>
Total liabilities and fund balances	<u>\$ 279,023</u>	<u>\$ 21,711</u>	<u>\$ 6,107</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of the capital assets is	\$ 425,352
Accumulated depreciation is	<u>(217,935)</u>

207,417

Long term liabilities are not due and payable in the current period and are not reported in the funds:

Leases payable	(30,450)
Net assets of governmental activities	<u>\$ 347,566</u>

**Statement of Revenue, Expenditures, and
Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008**

	General	Food Service	Nonmajor Fund Athletics	Totals
Revenues				
Local Sources	\$ 6,411	\$ 4,216	\$ 589	\$ 11,216
State Sources	708,971	-	-	708,971
Federal Sources	687,208	29,714	-	716,922
Other	14,450	100	-	14,550
Total Revenues	1,417,040	34,030	589	1,451,659
Expenditures				
Instructional Services:				
Elementary	230,630	-	-	230,630
Middle School	147,677	-	-	147,677
High School	193,694	-	-	193,694
Special Education	91,060	-	-	91,060
At Risk	32,912	-	-	32,912
Other Instruction	53,474	-	-	53,474
Support Services:				
Pupil Services	98,254	-	-	98,254
Instructional Staff	44,381	-	-	44,381
General Administration	13,913	-	-	13,913
Executive Administration	134,196	-	-	134,196
School Administration	155,147	-	-	155,147
Business	49,824	-	-	49,824
Operations & Maintenance	134,223	-	-	134,223
Pupil Transportation	35,321	-	-	35,321
Central Services	47,485	-	-	47,485
Athletic Activities	-	-	21,349	21,349
Food Services	-	56,461	-	56,461
Total Expenditures	1,462,191	56,461	21,349	1,540,001
Excess of Revenues (Expenditures)	(45,151)	(22,431)	(20,760)	(88,342)
Other Financing Sources (Uses)				
Operating Transfers In	-	25,380	21,587	46,967
Operating Transfers Out	(46,967)	-	-	(46,967)
Total Other Financing Sources (Uses)	(46,967)	25,380	21,587	-
Net Changes in Fund Balances	(92,118)	2,949	827	(88,342)
Fund Balances - Beginning of year	256,057	-	-	256,057
Prior Period Adjustment	-	-	2,884	2,884
Fund Balances - End of year	\$ 163,939	\$ 2,949	\$ 3,711	\$ 170,599

**Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended June 30, 2008**

Net Changes in Fund Balances – Total Governmental Funds \$ (88,342)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures in the
statement of revenues, expenditures and changes in fund balance.

These costs are allocated over their estimated useful lives as
depreciation.

Capital Outlays	\$ 12,296	
Current Depreciation Expense	(60,670)	
Loss on Asset Disposal	<u>(13,251)</u>	(61,625)

Repayments of lease and note principal is an expenditure in the
Governmental funds, but not in the statement of activities
(where it reduces long-term debt)

10,172

Change in Net Assets, Statement of Activities \$ (139,795)

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Agency</u>
Assets:	
Due from Other Funds	\$ <u>3,853</u>
Total Assets	\$ <u><u>3,853</u></u>
Liabilities:	
Due to Student Organizations	\$ <u>3,853</u>
Total Liabilities	\$ <u><u>3,853</u></u>

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Charter School – The Public School Academy was organized Pursuant to MCL 380.1 ct seg. This Law allows for the School to be eligible for State Aid and must comply with Michigan School Code provisions. The School operates under a grant agreement with the Board of Regents – Bay Mills Community College. The school was created to provide a learning experience, which includes Ojibwe culture, values, and traditions. The School Board may terminate the operating contract by notification. The College Board of Regents may terminate the operating contract for various failures to comply with laws and regulations, insolvency, bankruptcy, insufficient enrollment, fraud, or if the school operates with a fund balance deficit of two or more fiscal years among other provisions.

The accounting policies of Ojibwe Charter School conform to U.S. generally accepted accounting principles as applicable to Schools. The following is a summary of the significant accounting policies:

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units.

Basic Financial Statements – School-wide Statements

The Academy's basic financial statements include both school-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The School first utilizes restricted resources to finance qualifying activities.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

Note 1 - Summary of Significant Accounting Policies (Continued)

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.)

The School does not allocate indirect costs. In creating the school-wide financial statements, the School has eliminated interfund transactions.

The school-wide focus is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The accounts of the School are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows.

Governmental Funds – Governmental Funds are those funds through which most School functions typically are financed. The acquisition, use, and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget. The School reports its general fund as a major fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service and Athletic Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School reports the food service fund as a major fund.

Agency Funds – These Funds account for monies held on behalf of student organizations or school affiliated groups that use the School as a custodian of funds.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the governmental-wide statement uses the economic resources measurement focus.

Note 1 - Summary of Significant Accounting Policies (Continued)**Accrual**

Governmental activities and Fiduciary Funds in the school-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are impact aid, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The School reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received. The School utilizes restricted funding and then unrestricted resources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash and Investments – Investments are recorded at fair value, based on quoted market prices, or estimated fair value. The School considers all highly liquid investments maturing in 90 days or less as cash equivalents. Deposits are recorded at cost.

Inventories – Inventories, if present, are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School. The Food Services Fund inventory consists of food and paper goods. For all funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined as assets with an initial cost of \$500 or more and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Site Improvements	5 – 20 years
Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

Compensated Absences – The liability for compensated absences reported in the school-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There was no liability at year end.

Long-Term Obligations – In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Budgets

The Public School Academy formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2008. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplementary Information.

Note 3 - Deposits and Investments

Deposits

The School's funds are deposited in a single financial institution. Deposits are carried at cost.

	<u>Primary</u>	<u>Fiduciary</u>
Per Financial Statements:		
Checking and Savings	\$ 5,085	\$ -
Money Market	<u>97,509</u>	<u>-</u>
	<u>\$ 102,594</u>	<u>\$ -</u>

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The School's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The School's investment policy does not have specific limits in excess of state law on investment credit risk. The School has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$1,648 of the School's bank balance of \$1,648 was exposed to credit risk because it was uninsured and uncollateralized.

Note 3 - Deposits and Investments (Continued)

Custodial investment credit risk. Investment custodial credit risk, is the risk that the in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the School's \$97,509 investments, \$97,509 are not in the name of the School, but in the name of the agent.

Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Schools deposits are in accordance with state statutes.

Note 3 - Deposits and Investments (Continued)

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Investments:					
Money Market	\$ <u>97,509</u>	\$ <u>97,509</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Note 4 - Capital Assets

A summary of changes in governmental capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Assets (Non depreciated)				
Construction in Progress	\$ <u>13,200</u>	\$ <u>-</u>	\$ <u>(13,200)</u>	\$ <u>-</u>
Assets (Depreciated)				
Site Improvements	<u>5,506</u>	<u>-</u>	<u>-</u>	<u>5,506</u>
Furniture and Equipment	<u>407,621</u>	<u>12,296</u>	<u>(71)</u>	<u>419,846</u>
Total Assets (Depreciated)	<u>413,127</u>	<u>12,296</u>	<u>(71)</u>	<u>425,352</u>
Accumulated Depreciation				
Site Improvements	<u>(1,335)</u>	<u>(814)</u>	<u>-</u>	<u>(2,149)</u>
Furniture and Equipment	<u>(155,950)</u>	<u>(59,856)</u>	<u>20</u>	<u>(215,786)</u>
Total Accumulated Depreciation	<u>(157,285)</u>	<u>(60,670)</u>	<u>20</u>	<u>(217,935)</u>
Net Capital Assets Depreciated	<u>255,842</u>	<u>(48,374)</u>	<u>(51)</u>	<u>207,417</u>
Total Net Capital Assets	\$ <u>269,042</u>	\$ <u>(48,374)</u>	\$ <u>(13,251)</u>	\$ <u>207,417</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$60,670. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Management Agreements

The charter school executed a management agreement in June 2007 with Charter School Services of Michigan, Inc. to provide educational services and certain administrative services for the public school academy. The original term of the agreement ends on the last school day of the 2008 school year or upon termination of the charter and may be renewed. The agreement requires compensation to CSSM, Inc. based on actual costs incurred. Additionally, the Academy agreed to a management agreement with Charter Management Alternatives, LLC to provide administrative and technical support for \$100,000 per year plus expenses not to exceed \$35,000 per year. The contract expired on June 30, 2008.

Note 6 - Interfund Receivable and Payables, and Transfers

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE TO OTHER FUNDS						
DUE FROM OTHER		General	Food Service	Nonmajor	Fiduciary	Total
	General	\$ -	\$ 14,780	\$ 4,957	\$ 2,305	\$ 22,042
	Food Service	18,762	-	-	-	18,762
	Nonmajor	<u>848</u>	<u>-</u>	<u>-</u>	<u>1,548</u>	<u>2,396</u>
	Total	<u>\$ 19,610</u>	<u>\$ 14,780</u>	<u>\$ 4,957</u>	<u>\$ 3,853</u>	<u>\$ 43,200</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

TRANSFERS OUT	
	General Fund
Food Service	\$ 25,380
Other Nonmajor	21,587
Total	<u>\$ 46,967</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7 - Risk Management

The School is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees. The School has purchased commercial insurance for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Note 8 - Commitments and ContingenciesGrants

The Charter School has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2008.

Transition Agreement

The Academy engaged a consultant to assist the School with self management functions and policies through fiscal 2008. The transition agreement requires payments for services not to exceed \$100,000 plus costs of travel and can be renewed for 2009 and 2010.

Note 9 - Due From Other Governmental Units

Amounts due from other governmental units consist of \$141,973 in revenues due from state and federal sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2008 state aid, which was not received until after year end due to the state aid payment schedule.

Note 10 - Operating Lease

The charter school executed an operating lease with the Bay Mills Indian Community for buildings, parking areas and grounds located in Brimley, Michigan. The lease expires annually on June 30th. It is anticipated that the lease will be renewed in future years. Rent paid during fiscal 2008 was \$60,000 in accordance with the terms of the lease.

Note 11 - School Funding

The Ojibwe Charter School received approximately \$7,204 per student for basic State aid foundation for the 2007-2008 school year for the 93 enrolled students.

Note 12 - Related Party Transactions

The Public School Academy has a purchase service agreement with CSSM, Inc., for teaching services and fringe benefits. Additionally, the School contracts with Charter School Management Services for professional activities. The building is leased from the formation government which administers the School's charter. These transactions included the following items during the period ended June 30, 2008:

Professional Contracted Services	\$	134,196
Salaries and Fringes		953,344
Building Lease		60,000

Note 13 - Debt Obligations

The following is a listing of debt obligations at June 30, 2008:

During July 2007, the School executed a Short-Term State Aid Anticipation Note in the amount of \$425,000 for cash flow purposes. The note requires interest to be paid at 5.79% and was due June 30, 2008. The amount unpaid at year end was \$0.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 28,295	\$ 425,000	\$ 453,295	\$ -

Note 14 - Capital Lease Obligations

The School executed a capital lease for the purchase of a vehicle listed below:

2009	11,795
2010	11,795
2011	<u>8,745</u>
Total	32,335
Amount of Interest	<u>(1,885)</u>
Net Lease	30,450
% Interest	4.440%
Monthly Payment	\$ 983

Note 15 - Subsequent Event

During July 2008, the School executed a short-term state aid anticipation note in the amount of \$391,250. Terms of the note state interest shall be paid periodically at 5% and the full amount of unpaid principal is due June 27, 2009.

Note 16 - Prior Period Adjustment

During fiscal 2008, the School recorded the Athletic fund resulting in a cumulative fund balance adjustment on July 1, 2007 of \$2,884. The cumulative effect on prior years revenue was \$2,884 as well.

Required Supplementary Information

Ojibwe Charter School

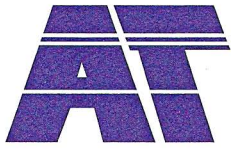
Required Supplementary Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final	(Budgetary Basis)	
Revenues:				
Local Sources	\$ 500	\$ 7,500	\$ 6,411	\$ (1,089)
State Sources	770,606	705,270	708,971	3,701
Federal Sources	788,331	757,834	687,208	(70,626)
Other Transactions	<u>6,072</u>	<u>9,072</u>	<u>14,450</u>	<u>5,378</u>
Total Revenues	<u>1,565,509</u>	<u>1,479,676</u>	<u>1,417,040</u>	<u>(62,636)</u>
Expenditures:				
Instructional Services:				
Elementary	344,424	234,089	230,630	3,459
Middle School	160,290	150,582	147,677	2,905
High School	145,575	181,688	193,694	(12,006)
Special Education	48,400	83,507	91,060	(7,553)
At Risk	42,035	32,912	32,912	-
Other Instruction	84,974	51,784	53,474	(1,690)
Support Services:				
Pupil Services	148,389	151,770	98,254	53,516
Instructional Staff	57,218	52,794	44,381	8,413
General Administration	17,700	16,660	13,913	2,747
Executive Administration	157,118	131,158	134,196	(3,038)
School Administration	162,955	156,053	155,147	906
Business	67,500	58,000	49,824	8,176
Operations & Maintenance	146,902	138,349	134,223	4,126
Pupil Transportation	39,479	34,580	35,321	(741)
Central Services	27,900	42,920	47,485	(4,565)
Other Transactions	<u>11,750</u>	<u>49,214</u>	<u>46,967</u>	<u>2,247</u>
Total Expenditures	<u>1,662,609</u>	<u>1,566,060</u>	<u>1,509,158</u>	<u>56,902</u>
Excess of Revenues (Expenditures)	<u>\$ (97,100)</u>	<u>\$ (86,384)</u>	<u>(92,118)</u>	<u>\$ (5,734)</u>
Fund Balances – Beginning of year			<u>256,057</u>	
Fund Balances – End of year			<u>\$ 163,939</u>	

Required Supplementary Information
Budgetary Comparison Schedule – Food Service Fund
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget</u>
				<u>Over</u>
				<u>(Under)</u>
Revenues:				
State Sources	\$ 4,500	\$ 4,500	\$ -	\$ (4,500)
Federal Sources	28,000	28,000	29,714	1,714
Charges for Services	5,500	2,500	4,216	1,716
Other Transactions	<u>11,750</u>	<u>21,927</u>	<u>25,480</u>	<u>3,553</u>
Total Revenues	<u>49,750</u>	<u>56,927</u>	<u>59,410</u>	<u>2,483</u>
Expenditures:				
Food Services	<u>48,450</u>	<u>57,127</u>	<u>56,461</u>	<u>666</u>
Total Expenditures	<u>48,450</u>	<u>57,127</u>	<u>56,461</u>	<u>666</u>
Excess of Revenues (Expenditures)	<u>\$ 1,300</u>	<u>\$ (200)</u>	2,949	<u>\$ 3,149</u>
Fund Balances – Beginning of year			<u>-</u>	
Fund Balances – End of year			<u>\$ 2,949</u>	

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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MEMBER AICPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AND AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Members of the Board of Education
Ojibwe Charter School
Brimley, Michigan

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Ojibwe Charter School, as of and for the year ended June 30, 2008, which collectively comprise Ojibwe Charter School's basic financial statements and have issued our report thereon, dated August 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ojibwe Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 08-1 and 08-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying summary schedule of findings and questioned costs as item 08-1.

We noted certain matters that we reported to management of the Ojibwe Charter School in a separate letter dated August 21, 2008.

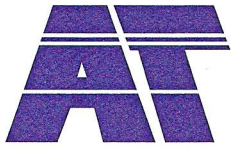
The School's response to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's response and accordingly, we express no opinion on it.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2008



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MICHIGAN & WISCONSIN

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Member of the Board of Education
Ojibwe Charter School
Brimley, Michigan

Compliance

We have audited the compliance of the Ojibwe Charter School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the Ojibwe Charter School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as item 08-3.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, as described below.

A control deficiency in a School's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiency described in the accompanying schedule of findings and question costs as item 08-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Ojibwe Charter School's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2008

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Ojibwe Charter School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Oversight Agency

The U.S. Department of Education is the oversight agency of the School, as this federal agency provided the largest amount of direct federal funding.

Note C - Food Distribution

Non-monetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. Entitlement donated commodities used during the year amounted to \$1,851, with ending inventory amounting to \$-0-. Bonus donated commodities used during the year amounted to \$0, with ending inventory amounting to \$-0-.

Note D - Reconciliation of Current Year Receipts to Form R7120 Payments

Payments per Form R7120	\$ 31,551
Grant Auditor's Report	220,043
Report Errors	(167,981)
Pass thru Grants:	
EUPISD	27,586
Other Awards:	
U.S. Department of Education	644,243
U.S. Department of Agriculture	<u>1,851</u>
Total Current Year Receipts	<u>\$ 757,293</u>

Ojibwe Charter School

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2008

Federal Grantor/Pass-through/Program Title	Federal CFDA Number	Project Number	Approved Award/Grant Amount	Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2007	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2008
U.S. DEPARTMENT OF AGRICULTURE								
Passed through State of Michigan Department of Education (MDE):								
Entitlement Commodities	10.550	-	\$ 1,851	\$ -	\$ -	\$ 1,851	\$ 1,851	\$ -
School Breakfast Program	10.553	071970	1,778	952	952	1,778	826	-
School Breakfast Program	10.553	081970	6,107	-	-	6,107	6,107	-
National School Lunch Program - All lunches	10.555	071950	696	-	-	696	696	-
National School Lunch Program - Free and Reduced	10.555	071960	4,452	2,735	2,735	4,452	1,717	-
National School Lunch Program - Free and Reduced	10.555	081950	2,516	-	-	2,516	2,516	-
National School Lunch Program - Free and Reduced	10.555	081960	16,002	-	-	16,002	16,002	-
Subtotal - Child Nutrition Cluster			31,551	3,687	3,687	31,551	27,864	-
Total - U. S. Department of Agriculture			33,402	3,687	3,687	33,402	29,715	-
U.S. DEPARTMENT OF EDUCATION								
Direct Awards:								
Small Rural Achievement Program	84.358	S358A066267	18,101	18,010	140	155	15	-
Small Rural Achievement Program	84.358	S358A076267	16,031	-	-	16,031	16,031	-
Subtotal - Small Rural Achievement Program			34,132	18,010	140	16,186	16,046	-
Indian Education	84.060	S060A072321	24,569	-	-	24,569	24,569	-
Indian Education	84.060	S060A062321	25,109	21,051	9,786	13,843	4,057	-
Subtotal - Indian Education			49,678	21,051	9,786	38,412	28,626	-
Safe and Drug Free Schools	84.184	Q184A050132-07	90,649	-	-	73,105	82,206	9,101
Safe and Drug Free Schools	84.184	Q184A050132-06	90,450	61,268	18,756	18,756	-	-
Subtotal - Safe and Drug Free Schools			181,099	61,268	18,756	91,861	82,206	9,101
Impact Aid	84.041	SO41B-2005-7079	338,605	336,785	-	1,820	1,820	-
Impact Aid	84.041	SO41B-2004-7079	324,891	318,206	-	6,685	6,685	-
Impact Aid	84.041	SO41B-2007-7079	528,911	528,911	-	10,580	10,580	-
Impact Aid	84.041	SO41B-2008-7079	478,699	-	-	478,699	478,698	(1)
Subtotal - Impact Aid			1,671,106	1,183,902	-	497,784	497,783	(1)
Total Direct Awards			1,936,015	1,284,231	28,682	644,243	624,661	9,100
Passed through State of Michigan Department of Education (MDE):								
Title I, Part A - Regular	84.010	081530 0708	45,686	-	-	30,586	25,150	(5,436)
Title I, Part A - Regular	84.010	071530 0607	50,062	44,626	19,816	19,816	5,436	5,436
Subtotal - Title I, Part A - Regular			95,748	44,626	19,816	50,402	30,586	-
Title II, Part D Education Technology	84.318	084290 0708	662	-	-	429	429	-
Title II, Part D Education Technology	84.318	074290 0607	514	280	-	233	233	-
Subtotal - Title II, Part D Education Technology			1,176	280	-	662	662	-
Title II, Part A Teacher Training	84.367	080520 0708	5,608	-	-	759	759	-
Title V, Part A Innovative	84.298	080250 0708	239	-	-	226	226	-
Title V, Part A Innovative	84.298	070250 0607	450	437	-	13	13	-
Subtotal - Title V, Part A Innovative			689	437	-	239	239	-
Subtotal - MDE			103,221	45,343	19,816	52,062	32,246	-
Passed through Eastern Upper Peninsula Intermediate School District (EUPISD):								
Handicapped Persons Title VI - B Flowthrough:								
2007-2008	84.027	080450-0708	18,502	-	-	18,502	18,502	-
2006-2007	84.027	070450-0607	23,712	11,914	6,563	9,084	11,798	9,277
Subtotal - EUPISD			42,214	11,914	6,563	27,586	30,300	9,277
Total - U. S. Department of Education			2,081,450	1,341,488	55,061	723,891	687,207	18,377
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,114,852	\$ 1,345,175	\$ 58,748	\$ 757,293	\$ 716,922	\$ 18,377

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs:**CFDA Numbers****Name of Federal Program**

84.041	Impact Aid
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 08-1

Condition: Our examination of procedures used by the School to adopt and maintain operating budgets for the School's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The School's 2008 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2008 expenditures exceeded the board's approved budget allocations for some fund activities.

During the fiscal year ended June 30, 2008, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 26 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Cause: Unknown.

Recommendation: We recommend that the School's chief administrative officer and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response – Corrective Action Plan: Management will monitor and adjust the General Fund budget as appropriate.

- Contact Person(s) Responsible for Correction:
Stephanie Vittitow, CAO
- Anticipated Completion Date:
September 2008.

Section II – Financial Statement Findings (Continued)

SIGNIFICANT DEFICIENCIES

**Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles**

Finding 08-2

Condition: As part of the audit process, the School, like some other governments, has historically relied on the independent auditors to assist in the preparation of the School-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. Management feel's it is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The School relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the School's internal controls. By definition, independent auditors should not be part of the School's internal controls.

Cause: Change in application of auditing standards.

Recommendation: We recommend that the School consider providing applicable employees with training that would allow them to attain the qualification required to fully understand the GAAP financial statements preparation process. Should the Board choose not to address this issue, management and the Board of Education should realize that an increased risk is present.

Management's Response – Corrective Action: Historically it has been the practice for the independent auditors of School to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. The Board needs to evaluate the cost benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP or outsourcing this task to its external auditors in determining the best interests of the School.

- Contact Person(s) Responsible for Correction:
Stephanie Vittitow, CAO
- Anticipated Completion Date:
September 2008.

Section III – Federal Award Findings and Questioned Costs

SIGNIFICANT DEFICIENCIES – NONCOMPLIANCE WITH FEDERAL REGULATIONS

Payroll Certification

Finding 08-3

Program: Impact Aid; CFDA No. 84.041; U.S. Department of Education; Direct Award.

Criteria: OMB Circular A-87 “cost principles for State, Local, and Indian Tribal Governments,” requires time/salaries spent working on federal programs must be documented for co-funded and 100% funded staff.

Condition: The School did not maintain the required documentation to be in compliance with OMB Circular A-87.

Effect: The School could be incorrectly charging employee salaries to Federal Programs.

Cause: This task was not assigned to current personnel after change in management company duties.

Recommendation: The School should prepare wage certifications at least semi-annually. The certifications must be signed by the employee and supervisor for employees who work solely for one program.

Management’s Response – Corrective Action: The certifications will be prepared and signed.

- Contact Person(s) Responsible for Correction:
Stephanie Vittitow, CAO
- Anticipated Completion Date:
August 2008.

Section II – Financial Statement Findings

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 07-1

Condition: Our examination of procedures used by the School to adopt and maintain operating budgets for the School's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The School's 2007 General Appropriations Act (budget) provided for expenditures of the Food Service Fund to be controlled to the activity level. As detailed, actual 2007 expenditures exceeded the board's approved budget allocations for some fund activities.

During the fiscal year ended June 30, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the Food Service Fund as listed on page 27 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

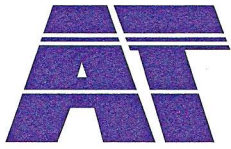
Recommendation: We recommend that the School's chief administrative officer and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the Food Service Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response – Corrective Action Plan: Management will monitor and adjust the Food Service budget as appropriate.

- Contact Person(s) Responsible for Correction:
Stephanie Vittitow, CAO
- Anticipated Completion Date:
September 2007.

Section III – Federal Award Findings and Questioned Costs

NONE



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board of Education
Ojibwe Charter Schools
Brimley, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ojibwe Charter School for the year ended June 30, 2008, and have issued our report thereon dated August 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated March 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Ojibwe Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Ojibwe Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Ojibwe Charter School's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the Ojibwe Charter School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Ojibwe Charter School's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 11, 2008.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ojibwe Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Athletic Fund (Prior Comment)

The athletic fund account is not reconciled or recorded on the general ledger. Athletic fund accounts should be established in the general ledger and reconciled to the bank statements monthly.

Status: Corrected.

Accrued Accounts

The balance sheet of the general fund contains liabilities which were carried forward from the prior year management company financial statements but have not subsequently been cleared on the current reports. These amounts should be cleared in the current fiscal year. Additionally, some accruals contain minor differences from supporting documentation and should be adjusted to the supporting documentation amounts in the current fiscal year.

Unallowable Costs

It was noted in our review of allowable grant expenditures, that amounts were remitted for tips on meals and gift certificates. OMB Circular A-87 does not allow these types of costs to be charged to federal grant programs. Since a significant portion of the funding comes from the Impact Aid program, these types of expenses should not be charged to the general fund.

Payroll/Disbursement Approvals

Direct deposit payrolls, vendor bills and transfers to the Charter School Management Company are occurring according to agreements and legal requirements. The Board is required to provide approval of these types of compensation and vendor payments. The Board should indicate specific approval of all payrolls, vendor payments and transfers during the period in the Board minutes. Direct deposit of payroll documentation should indicate approvals by the CAO as well.

Check Copies/Images

Due to changes in banking practices, the School does not always receive cancelled checks/images. The Michigan Department of Treasury Bulletin requires that check copies be retained in accordance with State guidelines and to assure proper clearing of amounts by the financial institutions. Additionally, a review of check images for proper payee, amounts and signatures reduces fraud risk to the organization.

Food Service Receivable

At the close of fiscal year 2008, over \$2,000 was due for hot lunches. Approximately 25% of individuals receiving lunches had not paid at year end. A concerted effort should be instituted to collect delinquent hot lunch amounts prior to year end to avoid post school year collection efforts. A collection policy should be instituted for all lunches not remitted.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 21, 2008